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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2020/2021

BAW4634 – BUSINESS PLANNING TAXATION

(All Sections / Groups)

16 OCTOBER 2020
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 14 pages including the cover page with **THREE** (3) Questions only.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

All questions are based on the Income Tax Act 1967 (as amended), Real Property Gains Tax 1976 (as amended), Sales & Service Tax Act 2018, Stamp Act 1949 (as amended) and legislations passed up to the year 2019.

QUESTION 1

You are a tax manager from GC Tax Consulting Sdn. Bhd. Last week, you and your tax director had met with the general manager of Booster Bhd. (Booster), an established manufacturer of bottled enzyme drink with the paid-up capital of RM3.1million. The extract from the notes of meeting is as follows:

Extract from the notes of meeting

Donation

As a responsible corporate citizen, Booster had donated one of its used delivery trucks to an approved charitable organisation on 1 December 2019. The market value of the truck on that day was RM40,000 while its residual expenditure was RM37,000.

Collagen drink manufacturing

Booster intends to diversify and produce bottled collagen drink. To enable it to do this, Booster will engage an independent consultant, Professor Tee from Singapore to advice on the project. Professor Tee will be in Malaysia for 10 weeks. Booster expects to incur RM100,000 for Professor Tee's expertise.

Forecast for 2020

The financial forecast for year 2020 for Booster is as follows:

	Collagen drink RM'000	Enzyme drink RM'000	Other income RM'000
Gross sales	1,500	11,900	
Adjusted (loss)/income	(600)	3,000	
Capital allowance	2,573	90	
Interest income			230

Raising capital of RM50 million

Booster intends to raise a capital of RM50 million to finance its collagen drink business. The company plans to raise capital either by way of:

- a loan from a commercial bank; or
- additional equity from shareholders

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Compensation received for early termination of supply contract

Booster will receive a compensation amounted to RM500,000 for early termination of the supply contract from a customer. It is expected that the incident will have a minimal impact on Booster's business. The general manager is keen to know whether the amount receivable is a taxable income.

Required:

- i) Determine the tax adjustment required (balancing charge/balancing allowance) for the year of assessment 2019 in respect of the donation of the delivery truck to an approved charitable organisation. (3 marks)
- ii) Explain the income tax treatment concerning the technical fee to be paid to Professor Tee, who is not a resident of Malaysia. Your explanation should cover the withholding tax compliance obligations, from the perspective of Booster. (4 marks)
- iii) Argue whether Booster should treat the manufacturing of bottled enzyme drink and collagen drink as (a) a single business or (b) two separate businesses. (8 marks)
- iv) What is the impact on Booster's income tax payable of having a single business and two separate businesses? Prepare a tax computation to support your answer. Assume that the company income tax rate is 24%. (10 marks)
- v) Explain the tax implications of raising a capital of RM50 million by way of:
 - a loan from a commercial bank
 - additional equity from shareholders(5 marks)
- vi) Explain whether the compensation receivable by Booster from early termination of the supply contract is subject to Malaysian income tax. (5 marks)

(Total: 35 marks)

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QUESTION 2

You are an ICAEW Chartered Accountant working as a tax adviser at Stevenson firm's headquarters in Malaysia. Harry is a client from your firm's branch in Australia. He is a Malaysian citizen but has been working as a senior engineer with CDX Incorporation, an Australian company. After working for more than 10 years in Australia, he had decided to return to Malaysia permanently together with his wife and two children.

Your manager has forwarded you an email from John, a senior tax adviser from Stevenson's branch in Australia and the extract from the email as follows:

Date: 1 January 2019

Subject: Tax planning

I, a Malaysian citizen who has been working in Australia for 10 years and since then, I am regarded as a tax resident in Australia. I am thinking of resigning from the company and return to Malaysia permanently together with my family. My wife, Elisa is a Malaysian and full-time housewife. She owns a hipster café business (sole proprietorship) in Malaysia and her sister manages the café while she is in Australia. We have two children. The eldest is Lucy, 15 years old and the youngest is Nancy, 10 years old. Both of them are studying at an international school in Sydney.

I have received a job offer from a company in Malaysia, Triton Sdn. Bhd. As per Triton Sdn. Bhd's email, I should commence my employment on 1 September 2019. After settling all matters in Australia, my family and I will return to Malaysia on 20 August 2019. Subsequent to my Malaysian assignment, I will be required to visit my company's subsidiary in Japan from 15 until 20 December 2019. I will leave Malaysia to Japan on 14 December 2019. I plan to extend the visit until 5 January 2020 to have a vacation with my family. I will return to Malaysia on 6 January 2020 and stay until 31 July 2020 before going for holiday in Sabah for a week.

I also have two apartments in Kajang, Selangor and Setiawangsa, Kuala Lumpur. An apartment in Kajang has been rented out since 2017 for RM1,200 per month. Meanwhile, an apartment in Setiawangsa is currently vacant, thus I decide to sell off this property to acquire another property for us to stay in Malaysia. I have found a semi-detached house in Cyberjaya, Selangor and the price of the property is RM760, 000.

Since I have not been a Malaysian taxpayer for 10 years, therefore, I am looking forward to your advice on how to manage our tax liabilities in Malaysia as I plan to combine my wife's income as well as my income in one tax return. I have attached all information with regards to my properties, remuneration package (**Exhibit 1**) and my wife's income in Malaysia (**Exhibit 2**).
Thank you.

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Exhibit 1**1) The details of the remuneration package are as follows:**

- A gross salary of RM9,500 per month.
- The rates of the Employee Provident Fund (EPF) contribution by the company and employee are 17% and 11% respectively.
- A company car costing RM115,000 with fuel.
- Medical benefits of RM1,200 per month.
- School fees for children amounting to RM3,000 per month.
- Entertainment allowance of RM200 per month.
- Free fully furnished accommodation rented by the company for RM2,000 per month.
- A family holiday package within Malaysia amounting to RM5,000 per year.

Additional information:

My family and I will be staying in the house provided by the company before moving into our own house expected to be occupied in June 2020 after the renovation.

2) The details of the properties are as follows:**i) Apartment in Kajang**

The apartment was purchased on 1 June 2011 at RM150,000. The followings are the income and expenses related to the property:

- Monthly rental of RM1,200.
- Quit rent and assessment of RM430 per year.
- Maintenance fees of RM155 per month.

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ii) Apartment in Setiawangsa

The apartment was purchased on 1 January 2015 at RM180,000. The followings are the expenses incurred in acquiring the property:

- Stamp duty of RM1,100.
- Legal fee of RM2,400.
- Renovation of RM5,600.

The property is proposed to be disposed at RM260,000 on 1 February 2019.

iii) New semi-detached house in Cyberjaya

The purchase price of this house is RM760,000. I will apply for a housing loan amounting to RM675,000 to finance the purchase of the house.

Exhibit 2

Elisa's business income and other related information are as follows:

- Estimated adjusted business income for year the 2019 is RM220,000.
- Estimated capital allowance for year the 2019 is RM52,000.
- Unabsorbed business loss from the year 2018 is RM12,500

Required:

- (i) Determine Harry's residence status for the year of assessment (YA) 2019. (4 marks)
- (ii) Explain to Harry on how to be a tax resident in Malaysia for YA2019 based on your answer in Part (i) and the advantages of being tax resident in Malaysia. (4 marks)
- (iii) Explain how Harry can have joint assessment with his wife's income. (5 marks)
- (iv) Compute the income tax payable of Harry and his wife, Elisa for the year of assessment 2019 under :
 - separate assessment; and
 - joint assessment.

(Note: Assuming Harry and Elisa are Malaysian tax residents and Harry will claim child reliefs. Round all figures to the nearest whole number.) (12 marks)

Continued...

- (v) Based on your answer in Part (iv), advise Harry, with reasons, on either to elect for joint assessment or separate assessment. (2 marks)
- (vi) Compute the total stamp duty payable by Harry on his purchase of new semi-detached house. (3 marks)
- (vii) Explain the tax implication on the disposal of Harry's apartment. Support your answer by way of tax computation. (3 marks)
- (viii) Advise Harry on how to minimize the tax payable from the disposal his apartment. (2 marks)

(Total: 35 marks)

QUESTION 3

You are an ICAEW Chartered Accountant, working as a tax adviser. Azlan, who is a new client of your firm, owns Book Store World (BSW), which is an unincorporated sole trader business.

Background information

BSW commenced its trading on 1 January 2015 and has always made up its accounts to 31 December annually. The business made profits for its first two accounting periods, but has recorded losses ever since. Due to that, Azlan plans to close BSW permanently and commence a new printing service business. As the owner of BSW, Azlan only receives a gross salary of RM2,500 per month without any fringe benefits. With the commencement of a new business, he expects to receive a gross salary of RM4,000 per month with other benefits amounting to RM3,800 per month.

BSW is currently operating in the premises bought by Azlan on 1 June 2016 at the purchase price of RM150,000. The premises are expected to be continuously used in the new business.

Azlan has asked you to advise him about the tax effects of his plans; in particular on the difference between the two options available for his business. He also requested your advice as to which of these options will be the most tax efficient. Azlan has been a tax resident in Malaysia for several years.

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Extract from Azlan's email:

I have been thinking to discontinue permanently my current business, Book Store World (BSW) starting on 31 December 2018 due to losses it has suffered for several years. I plan to commence a printing service, Modern Printing Enterprise (MPE), as my new business on 1 January 2019. However, this decision has not been finalised. I need your help in deciding which option is the most tax efficient for me. I have identified two options for my business as follows:

Option 1: Cease BSW operation and start MPE business.

The premises are the only assets expected to be continuously used in MPE business.

Option 2: Continue BSW operation and at the same time start MPE business to cover up the BSW's losses.

I have provided all relevant tax information regarding BSW in **Exhibit 1** and MPE's information in **Exhibit 2**.

Exhibit 1:

	YA 2019*	
Current year loss (RM)	(98,500)	Note 1
Unabsorbed business loss (RM)	(120,000)	
Unabsorbed capital allowance (RM)	35,000	
Balancing charge (RM)	16,600	

Note 1: The figures have been estimated based on the previous years trend if the business is expected to continue.

Other information: BSW is eligible to claim capital allowances for the following existing assets:

	Qualifying expenditure upon acquisition (incurred in YA2015) RM
Office equipment	53,000
Fixture and fitting	64,600

Continued...

Exhibit 2:

	YA 2019	
	RM	
Estimated pre-commencement business expenses	52,000	
Estimated revenue expenses	133,000	Note 2
Estimated net profit before taxation	280,000	

Note 2: The expenses include salary and other benefits paid to Azlan.

Other information: The business will purchase the following assets to be used in MPE for the year of assessment 2019.

	RM
Photocopying machine (general machinery)	85,000
Office equipment	49,800
Fixture and fitting	60,000

Requirements

- (i) Advise Azlan on the tax treatment for revenue expenses and capital allowances of BSW if Azlan chooses Option 1. (3 marks)
- (ii) Explain the tax treatment for business expenses incurred on Azlan's salary and other benefits. (3 marks)
- (iii) Compute the chargeable income for Azlan's business for Option 1 and Option 2 for the year of assessment 2019. Show all workings. (10 marks)
- (iv) By referring to the results obtained in requirement (iii), advise Azlan as to which option is more beneficial to him from the income tax perspective. (10 marks)
- (v) Explain to Azlan on the tax planning standards that you will apply as his tax adviser. (4 marks)

(Total: 30 marks)

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APPENDIX

TAX RATES AND ALLOWANCES

The following tax rates, allowances and values are to be used in answering the questions.

- **Income tax rates for resident individuals for the Year of Assessment (YA) 2019.**

Chargeable Income (RM)	Calculations (RM)	Tax Rate %	Tax Payable (RM)
0 - 5,000	On the first 2,500 Next 2,500	0 0	0 0
5,000 – 10,000	On the first 5,000 Next 5,000	1	0 50
10,000 - 20,000	On the first 10,000 Next 10,000	1	50 100
20,000 - 35,000	On the first 20,000 Next 15,000	3	150 450
35,000 - 50,000	On the first 35,000 Next 15,000	8	600 1,200
50,000 - 70,000	On the first 50,000 Next 20,000	14	1,800 2,800
70,000 - 100,000	On the first 70,000 Next 30,000	21	4,600 6,300
100,000 - 150,000	On the first 100,000 Next 50,000	24	10,900 12,000
150,000 - 250,000	On the first 150,000 Next 100,000	24	22,900 24,000
250,000 - 400,000	On the first 250,000 Next 150,000	24.5	46,900 36,750
400,000 - 600,000	On the first 400,000 Next 200,000	25	83,650 50,000
600,000 – 1,000,000	On the first 600,000 Next 400,000	26	133,650 104,000
Exceeding 1,000,000	On the first 1,000,000 Next ringgit	28	237,650

Non-resident individuals 28%

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- **Reliefs for the Year of Assessment (YA) 2019.**

	RM
Personal relief	9,000
Disabled taxpayer (additional relief)	6,000
Spouse relief	4,000
Disabled spouse relief (additional relief)	3,500
Medical expenses for parents	5,000
Parental care	1,500 per parent
Medical expenses for serious diseases (including medical examination expenses up to RM500)	6,000
Basic supporting equipment for disabled taxpayer, spouse, children, or parents	6,000
Child relief (below 18 years old)	
- Each	2,000
- Disabled	6,000
Child relief (over 18 years old and studying in higher learning institutions)	
- Each	8,000
- Disabled	14,000
Amount deposited into SSPN for child	8,000
Life insurance premium	3,000
EPF contributions	4,000
Premium on deferred annuity contract and private retirement scheme	3,000
Premium on medical/education insurance	3,000
Employee's contribution to SOCSO scheme	250
Education fees paid by taxpayer for his own self-improvement	7,000
Lifestyle expenses	2,500
Breastfeeding equipment	1,000
Fees paid to childcare centre and kindergarten	1,000

- **Rebates**

Rebates	RM
Chargeable income <= RM35,000	
Individual	400
Additional relief when wife/husband relief is claimed	400

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- **Benefits-in-kind (BIK) scale rates as per Inland Revenue Board (IRB) guidelines**

Cost of car when new	Annual prescribed benefit of motorcar	Annual prescribed benefit of petrol
RM	RM	RM
Up to 50,000	1,200	600
50,001 - 75,000	2,400	900
75,001 - 100,000	3,600	1,200
100,001 - 150,000	5,000	1,500
150,001 - 200,000	7,000	1,800
200,001 - 250,000	9,000	2,100
250,001 - 350,000	15,000	2,400
350,001 - 500,000	21,250	2,700
500,001 and above	25,000	3,000

The value of the car benefit equivalent to half of the above rates is taken if the car provided is more than five years old.

- **Prescribed value of household furnishings, apparatus and appliances**

Category	Type of Benefit	Annual Prescribed value of BIK provided RM
1	Semi-furnished with furniture in the lounge, dining room or bedroom.	840
2	Semi-furnished with furniture as in Category 1 and one or two of the following: <ul style="list-style-type: none"> • air-conditioners • curtains and alike • carpets 	1,680
3	Fully furnished with benefits as in Category 1 and 2 plus one or more of kitchen equipment, crockery, utensils and appliances.	3,360

Other benefits

RM per month

Household servant	400
Gardener	300
Driver	600

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- Rates of Capital Allowances**

	Motor Vehicles/ Heavy Machinery	Plant & Machinery (general)	Office Equipment, Furniture & Fittings, Others	Industrial Building
Initial allowance	20%	20%	20%	10%
Annual allowance	20%	14%	10%	3%

- Real property gains tax**

With effect from 1 January 2014 the tax rates that apply depending on the holding period from the date of acquisition of the asset as follows:

Holding Period	Individuals Citizen or Permanent Resident	Non-Citizen or Non- Permanent Resident	Company	Others/Executor
Within 3 years	30%	30%	30%	30%
In the 4 th year	20%	30%	20%	20%
In the 5 th year	15%	30%	15%	15%
Beyond 5 years	5%	10%	10%	5%

- Stamp duty**

Rates of duty under the First Schedule

Conveyance, assignment, transfer or absolute bill of sale

	Rate %
Sale of property - from 1.7.2019 onwards	
First RM100,000	1
RM100,001 to RM500,000	2
RM500,001 to RM1,000,000	3
>RM1,000,000	4
House loan agreement	0.5
Transfer of shares or marketable securities	0.3

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- **Tax rates of resident company**

Companies with paid-up capital <= RM2.5 million (at the beginning of the year of assessment)	Tax rate
On the first RM500,000	17%
On the remainder	24%
Other companies	
All chargeable income	24%

- **Tax rate of non-resident company**

All chargeable income	24%
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- **Non-resident tax rate (other than non-resident company)**

Type of income	Year 2019
	Rate of Tax (%)
Interest	15
Royalty	10
Technical and management fees	10
Lease rental of movable properties	10
Other income	28
Section 4(f) income	10

End of paper